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Chicago

1877

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No. 2

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THE FUTURE CURRENCIES

OF THE

UNITED STATES.

SHALL ITS PAPER ISSUES BE THOSE OF THE GOVERNMENT, OF THE
BANKS, OR OF BOTH?

SHALL ITS COIN BE GOLD, OR SILVER, OR BOTH?

SOME THOUGHTS ON THESE QUESTIONS

BY

AN AMERICAN CITIZEN.

CHICAGO, MAY, 1877.

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THE FUTURE CURRENCIES

OF THE

UNITED STATES.

It may be that the country is wearied by the discussion of questions relating to the reorganization of our monetary system, by the resumption of specie payments, and of schemes or plans looking to the accomplishment of that end, and that at this late day none will care to read or listen to the expression of thoughts on the subject, either in themselves new, or a re-statement and grouping of ideas already more or less canvassed in detached order as the canvass has proceeded. It may perhaps be assumed that, practically, a decision has been arrived at as to the desirableness of the proposition, by the events of the late Presidential campaign; the two leading political parties of the country having, by their platform expressions and through the responses of their chosen standard-bearers, declared in favor of a sound circulating medium; and although the means suggested for reaching that result, where suggested at all, have been more or less divergent, still they have pointed to the same ultimate consummation. The debt or credit system, that had in it no suggestion of a pay day, which was made the foundation stone upon which the venerable Cooper's followers proposed to erect a financial superstructure, having secured so insignificant a support, may perhaps be no longer considered as an element in the forces operating for the solution of our currency problem, and we may now recognize it to be the sentiment of an overwhelming majority of the people of the United States that measures should be adopted having in view the resumption of specie payments "at the earliest practicable day," whatever that may mean.

Many writers and speakers have insisted that the question, as to when and how we should reach a specie basis, should be left to the so-called operation of natural laws, by which, it is supposed, is meant the gradual appreciation of our national credit; and that in this respect sufficient evidence is furnished that we are on the right and certain road to resumption, by the decline in the gold premium, or, rather, the nearing approach to a par between gold and currency. This certainly has been most gratifying, but any conclusions drawn from it that such improve-

ment is certain, or likely to continue uninterruptedly until such equality of values is reached, thereafter to be maintained, must be more or less disturbed by the events of the past few weeks, wherein we have seen the gold premium fluctuate, within three or four days, sufficiently to counterbalance from four to six months' interest, and which has had that effect in so far as our commercial relations with foreign nations are concerned. This ever-shifting and unstable value of what we call money must, so long as it exists even in a small degree, prove a source of uncertainty in all commercial transactions, and a disturbing element to the return of confidence in the prosperity of legitimate enterprises, the development of which is at this moment of such vital importance to the welfare of all the interests of the people. Insignificant as the variations in the value of our standard may seem to casual observers to be, when they do not exceed one to two per cent in a week or a month, they are quite sufficient to keep alive that feeling of unrest and timidity, on the part of close financial calculators, under which we have suffered these many years. Let us not deceive ourselves with the idea that, without suitable preparation, we can ever bridge even the small chasm that now separates us from the solid rock of financial stability, for we may rest assured that although, from momentary causes, there should to-day exist no demand for coin that would cause it to command any premium, yet unless our paper currency is supported by a sufficient reserve of coin to meet any reasonable presumption of a desire for conversion, we are but little nearer to actual specie payments, as a financial reliance, than if coin were ten or twenty per cent premium.

Congress has, after unwarranted delay in taking any definite action on the subject, at last solemnly declared that, on and after the first day of January, 1879, the Treasury of the United States shall redeem, as promised, the long-neglected promises to pay its notes in the hands of the people. Without in this place attempting to discuss the wisdom of that particular enactment, and whether or not it provides the best form of proceeding, it is enough for the present to know that the pledge thus given by the government to the people cannot be broken without a fresh breach of national dishonor, of which, in this direction, we have already had more than enough. Assuming that the present administration entertains no thought of receding from the position already taken, and that by placing at the head of the Treasury Department, if not the originator, certainly the chief promoter of that measure, it proposes in good faith, if possible, to accomplish the fulfillment of the promise thus made to the public creditors by its predecessor, it remains now to consider what shall be the processes by which the end sought shall be attained; and in this connection the inquiry is pertinent, as to what shall thereafter constitute the circulating medium of exchange of the country. It is especially to this latter feature of the case that the writer desires to call

attention, it appearing to him that a more definite emanation from Congress is desirable on this subject than has yet been made.

The resumption act of January, 1875, provides for the redemption in coin, on and after the 1st day of January, 1879, of the legal-tender notes of the United States as presented at the Treasury. To procure the necessary coin for that purpose the Secretary of the Treasury is authorized to issue and sell,—at not less than par in coin,—any of a certain description of bonds of the United States described in an act of Congress of July 14, 1870. The bonds so described may bear four, four and a half or five per cent interest, and be made payable, at the pleasure of the United States, after thirty, fifteen and ten years respectively. It was held by many, and perhaps generally at first, that, reference being made to the bonds authorized by the act of July, 1870, it was intended that the entire amount of bonds to be issued, of either description, should not exceed the amount authorized of each by the act of 1870, as modified by a supplementary act of January 20, 1871: that is to say, five hundred millions of five per cents, three hundred millions of four and a half per cents, and seven hundred millions of four per cents. The limit of five per cents, so authorized, having been fully reached, and the full amount of the four and a half per cents having been offered, with a probability that they will all be absorbed at an early day, and their proceeds appropriated to the retirement of the outstanding six per cent five-twenty bonds, it was feared that the Secretary of the Treasury would be obliged to rely on the four per cents for the purposes of the resumption act, and as the negotiation of these at par for coin was somewhat problematical, grave apprehensions were felt that insufficient provision had been made to carry that act into practical effect. It is, however, understood that both Secretaries Bristow and Morrill held,—and it is presumed Secretary Sherman entertains similar views,—that the act of 1875 authorizes an entirely separate issue of bonds described in the act of 1870, to the extent necessary to accomplish the purposes contemplated by the resumption act. A careful reading of that act appears to fully justify such a construction, and, so construed, the means of providing sufficient coin to meet any contingency likely to arise for its use in the redemption of legal-tender notes, even to the extent of redeeming the entire issue within a reasonably short space of time, appears to be ample. The provision for retiring legal-tender notes, to the extent of eighty per cent of new national-bank notes issued, until the volume of outstanding legal tenders is reduced to three hundred millions, and by redemptions in coin after January 1, 1879, are at present the only methods provided for retiring these notes. It has been suggested that further provision should be made for the funding of a portion of them in a low interest-bearing bond prior to the date fixed for coin redemption. This could undoubtedly be done in a four per cent thirty-year bond at par, and to the extent so retired the Treasury would

be relieved from the necessity of accumulating a corresponding amount of coin. Such a funding of a portion of these notes would probably be the cheapest manner of disposing of them, if it be the policy of the government to retire and obliterate them from the currency of the country. The early reduction of the existing amount of paper currency to a limited extent would not, it is believed, be likely in any way to embarrass the business interests, especially as we have seen a large retirement of both legal tenders and national-bank notes since the beginning of 1875 without any injurious results, and the volume of currency still seems superabundant.

No one probably entertains the crazy idea that the business of the country will ever be conducted solely by the use of a metallic currency; it is not desirable if it were possible, and it certainly will not be possible for many years to come, if ever. Paper issues of unquestioned character as to security, if convertible into coin at the pleasure of the holder to any needed extent, are by far the cheapest and most convenient medium of exchange, and this country has never had, nor can it ever hope to have, a currency more desirable than the government legal-tender notes would be if they were redeemable on presentation, in coin. If our only paper currency were legal-tender notes issued by the government, payable on demand in coin, there would be required but a small percentage of them to be retained in coin in the Treasury to constitute an ample reserve for all contingencies likely to arise; a much larger reserve, however, than might be deemed practically safe, would, as a matter of precaution, be retained by a prudent management of the currency bureau. The theory advanced by some very able students of finance that a government issue of paper currency can only be safe when supported by a substantially equal amount of coin reserve, as has been the custom in France, finds no support in the experience of this country under its former issues of paper money not a legal tender for anything, except at the counter of the particular bank from which it was issued, and largely not current for ordinary business purposes beyond a limited extent of country contiguous to its place of issue. National-bank notes are not legal tender, and should not be, and as they are issued in relatively small amounts, by each of over two thousand banks, each must keep in its vaults a sufficient reserve to protect its own issues, which would undoubtedly be presented for redemption in much larger proportions than would the government legal-tender notes, were they the only paper currency of the country. In case the legal-tender notes are retired, it is obvious that all bank reserves, as against circulation, must be held in actual coin; and it probably needs no argument to show that the adoption of the bank notes as the national currency would operate as a much larger absorbent of coin than would the government legal-tender notes. Again, the national-bank system of currency issues operates as an enormous absorbent of the loanable capi-

tal of the country that ought to be utilized in a more profitable manner for the benefit of the industries of the people. Add to the ten per cent margin required to be deposited with the United States, as security for the payment of the notes to be issued, a sufficient reserve at home, or in some central redemption agency for the protection of all notes as presented, say certainly not less than twenty-five per cent, and we have over one third of the capital of the banks practically tied up, beyond the reach of the commercial and industrial interest, where, in a country like ours, it is so much needed. The amount so withdrawn from active use is still further increased when, as is the case at present, the bonds deposited to secure circulation are of a market value from ten to fifteen per cent above par. The issue of national-bank notes, under the restrictions and burdensome taxation imposed by existing laws, is not a profitable use of capital, as is demonstrated by the constant retirement and cancellation of them by the banks under the act of June 20, 1874; this to November 1, 1876, having amounted to nearly \$53,000,000 retired by banks proposing to continue to operate under the national banking law, besides \$9,000,000 retired by banks in process of liquidation. This process of retiring their currency has been carried on during a time when there has been no serious demand for redemption by the banks at home, their currency being at most redeemable in paper about as abundant, and in no wise a whit more valuable for business purposes than they are themselves. The organization of new banks, since the repeal of any limitations on them as to location or the amount of their currency issues, has been very inconsiderable, and nearly all such have been located in small towns, with capital of from \$50,000 to \$100,000; their organization at all under the national banking law being, presumably, for the purpose of establishing for their owners a better financial standing, rather than because of greater anticipated profits resulting from such an organization than might be expected from an equal standing as banking firms. In this connection it is instructive to observe how utterly at fault were those who, in the winter of 1873-4 and later, claiming to represent the west and south, were clamorous for free banking, to enable the people of those sections to secure a needed supply of home issues of paper currency, which, they insisted, they were unjustly deprived of by reason of the so-called monopoly features of the national banking law, which assigned to the several States only a certain amount of such issues. The result of the operation of the free banking law to May 1, 1877, shows a net increase in the amount of national-bank currency outstanding in only Maine, New Hampshire, Massachusetts, New Jersey, Delaware, Florida, Alabama and Kentucky, while all the other States show a reduction from the amount outstanding at the date of the free banking act, January 14, 1875. In New York the reduction has been over \$10,000,000; in Illinois, over \$5,000,000; in Missouri, over \$3,000,000; in Louisiana and Indiana, over \$2,000,000 each, and in

Pennsylvania, Maryland, Virginia, Ohio, Michigan, Wisconsin, Iowa and Minnesota, over \$1,000,000 each. That the repeal of the obnoxious features of the law was a wise measure will not admit of a doubt, but that such repeal would result in a large increase of national-bank issues in States that it was claimed were unjustly deprived of that boon to needy borrowers is proved to have been a great misconception of financial probabilities.

There is, undoubtedly, somewhat of friction between the two classes of currency now afloat, but vastly less than there would be if the treasury notes were redeemable in coin. The tendency that at present exists to hoard them would then be greatly increased, while the currency kept in active circulation would consist, so far as the supply would permit, of bank notes. These, as, in the course of business, they floated to the great money centers, would be gathered up and presented for redemption, and if not redeemed at those points at par, would soon cease to be received at the banks of those cities as current funds; and so we should gravitate backward to the old manner of submitting to a small slave for conversion. Probably no one will question that the United States Treasury will require a much larger reserve of coin to protect a circulation half national-bank notes and half treasury notes than it would if all were treasury notes. Every prudent banker, having circulation outstanding, will feel that he ought to hold at least a small margin of coin in his vaults; indeed it is probable he would be required by law to do so. Such coin would, of course, be obtained by the conversion of legal-tender notes through the United States Treasury. The small reserve of ten per cent on national-bank currency, as it now stands, would require over \$30,000,000 in coin to be held by the two thousand banks throughout the country, and would be so much actual capital practically dead to the business interests.

It is presumed that all careful students of the probable future of our circulating medium will admit that the business of the country will require for its exchanges a larger amount of paper issues than the present volume of national-bank notes, say \$300,000,000. Three modes of supplying that demand are probably all that need be considered. *First:* that it shall be supplied, as now, part by the banks and part by the government. *Second:* that it shall be supplied solely by the banks; and *Third:* that it shall be supplied solely by the government. Any idea that the people will, willingly, either wholly or in part, return to the State-bank issues of the painfully remembered past, is not presumed to have many advocates in any quarter.

What are the probabilities that any material increase in national-bank issues of currency may be expected? Would such an increase be profitable, either to the banks themselves or to the people?

Let us suppose an association of citizens are proposing to engage in banking. We should expect them to do so, if at all, with a view to a

profitable employment of their capital, not from any special desire, except incidentally, to benefit the public. These gentlemen have a joint cash capital of say \$250,000, which is above the average capital of all the national banks. They may organize as a banking firm, through which they can conduct their business in their own way, without the, at least nominally, rigid restrictions imposed by the banking law, be free from official visitations and prying inquiries, of little practical value to the public, but a source of annoyance to all business men who consider themselves capable of managing their own affairs. Or they may organize under the national banking law, with the privilege of issuing currency. If the first mode is adopted they will operate on their capital and deposits; if the second, on their circulation and deposits; and if in either case they are able to command a line of say \$500,000 deposits, which is above the proportion of deposits to capital of all the national banks of the country, but below that of first class banking houses, and they do not resort to the pernicious practice so current in these days, of paying interest on large deposits, they may perhaps expect about the following results, under a careful management.

Organized as a banking firm, they could prudently carry an average line of discounts amounting to say \$600,000 (the average of discounts as compared with capital and deposits of the old State banks was much larger), which at six per cent interest would produce—

Gross earnings amounting to.....	\$36,000 00
From which deduct Expenses, etc., say:	
For Salaries, Cashier, Tellers, Bookkeepers, etc.....	\$9,000 00
" Rent and Incidentals	1,500 00
" Taxes, State, County, Municipal and National.....	4,000 00
" Losses by bad debts, say.....	6,000 00—\$20,500 00
Leaving the net result as Profits, say.....	\$15,500 00

The above line of discounts gives them, in the calculation, thirty per cent of reserve to their demand liabilities, viz., their deposits only.

Organized as a national bank, and securing a full line of currency, based on the least absorption of capital, they would probably deem it wise to invest in a four per cent bond at par, every indication at present pointing to that as being the only bond acceptable as a security for circulation that could be purchased at par. On these they would receive \$225,000 in bank notes. These must be protected by a reserve, required either by law or common prudence. Assuming in this case, as in the other, that they need only a reserve of thirty per cent of cash means to demand liabilities, which in this case covers both deposits and circulation, the utmost that they could loan would be \$507,500. This, however, is a larger ratio of loans to liabilities than is usually carried by the average of national banks,—larger even than they did carry in September, 1873, before the panic. Upon this basis their income in gross would be, say:

On \$250,000 bonds at 4 per cent.....	\$10,000 00
" \$507,500 discounts at 6 per cent.....	30,450 00
Total	\$40,450 00
From which deduct expenses, etc., say:	
For Salaries, President, Cashier, Tellers, etc.....	\$10,000 00
" Rent and Incidentals.....	1,500 00
" Taxes $3\frac{1}{2}$ per cent on Capital.....	8,750 00
" Losses by bad debts, say.....	5,000 00—\$25,250 00
Leaving the net result, as Profits say.....	\$15,200 00

Of course the bonds, hypothecated with the government for circulation, are not included in the available cash means of the bank, as these are only available on the surrender of the currency issued against them. It will probably be conceded that the general items deducted from gross earnings are rather below than above the proper figure, and that the excess in the bank is none too great as compared with the firm. In the matter of taxation the last report of the Comptroller of the Currency gives the average taxation of all the national banks of the country for 1875 as three and a half per cent of their capital, while in some cities it amounts to five and six per cent. The amount of taxes allowed for the firm are probably higher than they would be called upon to pay. As to bad debts the comptroller states that the amount of bad or doubtful debts charged to profit and loss by the national banks during the year ending September 1, 1876, was \$19,719,026.42, which is over three and seven-eighths per cent of their capital. He deems it probable the amount to be charged of the ensuing year will be nearly as great. The estimate of two per cent in the case of the bank is certainly small enough for an average of years; a larger amount is allowed in the case of the firm, for the reason that their discounts are larger. In the two cases supposed, if the rate of interest on discounts were ten per cent instead of six, as calculated, the other figures remaining unchanged, the firm would receive as net profits \$24,000 more, the bank would receive only \$20,300 more.

Now as to the results to the public. In the first case the firm, on the same capital and deposits as the bank, has been able to extend accommodations to the business classes and in aid of the public industries in excess of the bank, to the extent of nearly twenty per cent; this applied to the whole country is quite sufficient to change the condition of the money market from one of ease to one of great stringency. It is much more than the reduction in discounts by the national banks between August and December in 1873, when the withdrawal of bank accommodations was felt to be grinding the business interests of the country between the upper and the nether millstones.

In view of these facts, if facts they are, is it probable that either capitalists or the people can afford to adopt the national-bank notes as the currency of the country?

On the other hand, is it desirable that the government legal-tender notes should be wholly retired and canceled? and if so, of what shall our circulating medium consist? These are questions that occur to the writer as of great practical importance in the present state of the currency discussion. Probably the people generally, or at least largely, have accepted the law of 1875, providing, that prior to January, 1879, the volume of outstanding legal-tender notes should not be reduced below \$300,000,000, as somewhat of an indication, if not the declared policy, of the government, that there should be kept afloat as currency the amount so named as the minimum of such notes to remain undisturbed by the process of retirement on the issue of new national-bank notes, and that after that point was reached the paper circulation should consist of these notes, and whatever sum of bank notes the bank managers deemed it for their interest to issue under the national banking law, the legal-tender notes to be redeemable in coin on presentation at the treasury of the United States, and the bank notes redeemable either in coin or in the legal-tender notes at the pleasure of the issuer. Just how the treasury notes, so redeemed, were to be again put in circulation has never, so far as the writer has observed been suggested, except by the limited and uncertain process of government payments for purchases of supplies, salaries, etc., and by the convertible bond scheme which will be alluded to hereafter. Direct payment of these notes by the government, in the ordinary course of its business only, would be less than its current receipts from revenue, and would not replace in circulation any of the redeemed notes, that process would operate as a steady withdrawal of them from circulation.

A policy has been suggested, though never fully discussed,—some seeming to take it for granted that it was the only theory to be considered in connection with a resumption of specie payments—that whenever the government decided to redeem its notes, all notes so redeemed were to be retired, and never again put in circulation. The word "redeemed" as used in the resumption act of 1875 has not so clear a significance as might be desired. Whether it means that the legal-tender notes, as they are redeemed by either of the processes named in the act, shall simply be paid, and then held for re-issue, as a bank re-issues its redeemed notes, or that they shall, when redeemed, be cancelled, as a merchant pays his matured paper, with no thought of ever again placing it upon the market, are questions of no little importance. Pending the consideration of the act in the Senate, in answer to a direct question by Senator (now Secretary) Schurz, as to whether or not legal-tender notes, redeemed to the extent of eighty per cent of new national-bank notes issued, were to be canceled and not again put in circulation, Senator (now Secretary) Sherman—who had charge of the bill—made a rather evasive reply, and said: "Undoubtedly until the redemption of United States notes to three hundred millions of dollars they cannot be re-issued." In answer to Senator Bayard, Mr.

Saerman, speaking on the same point, said: "I do not propose to give my construction, or opinion as a lawyer, upon the question as to what is the meaning of the word 'redeemed,'—as to whether it precludes or authorizes the re-issue of notes;" and further on, "I propose to leave that an open question, to be decided in the future according to law." No action has since been had by Congress that tends in any way to dispose of the uncertainty, that was clearly intended should be left, enveloping this question; and so far as specific congressional action is concerned, we have no means of determining what is to be done with these notes after being redeemed by either of the processes provided. Secretary Morrill, in his annual report of December, 1876, discussing the question of resumption, takes strong ground in favor of payment and cancellation, and says: "That policy which tolerated the continuance of these notes as money, after the close of the war, must be regarded as a public misfortune. At that time they were, according to original design, and by the logic of their existence, to be funded in an obligation of indebtedness, to be embodied with the public debt, and not to be treated or tolerated as an element of the national currency; they were to pass out of the category of currency, and to take their place with the public debt." This construction of the theory of the original issue of the legal-tender notes is undoubtedly eminently sound, and in entire harmony with the first acts authorizing the issue, in which it was provided that they might, at the pleasure of the holder, be converted into an interest-bearing obligation of the government, and it also accords with the view of the Supreme Court, in which, speaking of these notes, it says: "The government simply demands that its credit shall be accepted and received by public and private creditors during the pending emergency. . . . Their ultimate destiny was to be paid." Congress has never given expression to any theory in any way conflicting with these views. The people, however, after many years' use of these notes as a medium of exchange, have come to regard them as a most desirable substitute for money, or, as some would say, as money itself. And although Secretary Morrill informed us that "they are a constituent element in our currency to-day, because the original provisions for their funding have not been enforced, and that fanciful and speculative theories have proposed their permanent incorporation into our monetary system," still, if they are made convertible into coin, at the pleasure of the holder, there seems no good reason why they should be banished from the circulation, and their place supplied by a currency that is not a legal tender, and being redeemable only at the several banks issuing it, or at certain designated centers for certain banks, is not likely to be kept fully at par in all parts of the country, thus subjecting the people to a constant shave, unnecessary and annoying, and in the aggregate extremely expensive.

Dismissing the question of profit to the government, by the direct

issue of currency, as one of vastly less importance than is sometimes attached to it, owing to the loss of interest on the coin reserve necessary to be held for its redemption, the loss of taxes imposed on bank-note circulation, and the various expenses connected with the care and management of the currency, it is more to the point to consider the direct advantages to the people by the use of the government issues rather than those of banks. In the incipient discussions regarding the establishment of the present system it was held to be exceedingly desirable, if not absolutely necessary, that the great banking interests of the country should be brought into accord and harmony of action with the government, at that time in pressing need of all the cooperation it was able to attach to itself from any source. The system itself was an innovation upon the previously accepted ideas of banking and currency, and was experimental as to its effects and popularity. A large amount of currency was then in circulation, issued under State authority by banks; this it was desirable to displace with paper that should represent the credit of the national government, and in that way open new avenues for the enlargement of that credit. The government, while it felt the necessity of supplanting the bank currency as it then existed, hesitated to in any way antagonize the banking interests. So a compromise was devised, by which the banks were allowed to issue the currency, based upon the government credit represented by bonds. That system affords ample security to the holders of the bank notes; but that it is in any other respect an improvement on the previous methods of banking may well be questioned. In fact, the status that a bank, organized under the national banking law, is apt to be accorded in the minds of the general public has too often proved a snare and a delusion. The experience of the country in the results to depositors in case of failure by national banks, does not warrant the conclusion that their management, under a quasi-governmental supervision, is any better or more conservative than other similar institutions. Bank examinations have been instituted as a part of the system; but few, if any, rotten institutions have, however, been exposed, or closed, as the result of such examinations; and not infrequently it has occurred, within a few days or weeks after such examinations, banks have failed, and it was then developed that they had been insolvent and struggling for existence for months. Other bankers had been aware that they were in a tottering condition, but the government examiners had failed to discover it, or had criminally failed to sound the note of warning to the confiding public. The system takes little account of the interests of depositors, and the experience of the public, as the result of permitting the same persons who have squandered the assets of the institution to proceed with settling up its affairs, under the plea of voluntary liquidation, taking the control of its assets out of the jurisdiction of the State courts, or of the bankrupt law, has been most unfortunate, and villainies

of the most unblushing character have been perpetrated in such settlements, but discovered too late to afford any remedy to the unsuspecting and powerless creditors. Banks at best are nothing more than an association of individuals or combinations of private capital, and in many cases are, by assuming the respectable title of national banks, enabled to secure a standing and credit entirely beyond the just due of their owners, either individually or collectively. At the present time (whatever may have been true in the past) the national government is not under obligations to grant especial favors to the banks, and as has already been shown, there is no profit for a really creditable individual or association to adopt the national banking system. That system may have served a valuable purpose to the government, the banks and the people hitherto; but, with the return of sounder methods in our financial affairs, it seems appropriate that all improvements in details, that commend themselves to our judgment, in the light of experience, should be adopted. No raid on capital or its owners can subserve any commendable purpose; both should be brought into the most harmonious coöperation with the industries and trade of the country, and this can best be secured by the adoption of a policy that eliminates governmental supervision and interference in private business affairs, beyond what is absolutely necessary for the protection of the public. The matter of currency circulation directly affects all classes of society; general banking—the care of individual deposits and the loaning of money—is as much a private business as that of a merchant or custodian of any other kind of property that the people are free to patronize or not, as they may see fit. Of course reasonable safeguards against, and penalties for, the perpetration of confidence operations in banking, should be adopted for the public protection; but these are matters more proper for State than for national supervision. Congress, under the Constitution of the United States, has the sole power of coining, or making, money, and it seems a fair collateral conclusion that it alone can authorize a representative of money. This is the theory upon which the national banking act is founded, as also the concurrent act of Congress, by which it assumed to, and did, extinguish all other paper money, by the imposition of taxation upon the issues previously authorized by the several States. The States are expressly prohibited from coining money, or emitting bills of credit, which bank notes certainly are; and how they can authorize any portion or class of their citizens to do what the State itself cannot do, may be a debatable question in jurisprudence, but to the common mind it admits of but little argument. Any fine-spun theories that Congress can create a debt, and cause it to be represented by interest-bearing bonds, payable at a fixed future date, and then authorize corporations, created by itself, to issue, against that evidence of debt, as a security, a paper currency for use in the business transactions of the people, but cannot issue that evidence of

debt in the form of bills, payable on demand,—in either case making ample provision to meet the obligations so assumed,—certainly finds no support in direct constitutional provisions, and must rest on an exceedingly slender foundation.

It is not apparent that the country need seriously concern itself as to what the banks will or will not do in the event of a repeal of their authority to issue currency. If their owners have money to lend they will be likely then, as now, to study processes of investment that, in their judgment, promise the surest and best returns. The whole principle of the government absorbing the money of capitalists by loans to itself, represented by interest-bearing bonds, and then permitting the holder of that evidence of debt to issue against it a paper currency to be used as money in a second loan to the people, is repugnant to every idea of equal governmental protection to all classes of citizens, and rests on little else than the doctrine of so ordering the legislation of the nation as to make the rich man richer and the poor man poorer, that result being achieved by allowing a double interest to the one at the expense of taxation upon the other. It is no argument in favor of this policy that it fails in accomplishing its apparently legitimate ends; but if the principle be in itself vicious, it should be abandoned without delay. It is not denied that our present system of bank issues of currency is a marked improvement upon the methods previously adopted in this country. It is, however, claimed that the controlling idea with the issuers of any form of paper circulating medium is the supposed profit resulting therefrom, and it is with much force maintained that if there be any profit in supplying the people with a sound paper circulation, that profit legitimately belongs to the people themselves, and should be applied to the abatement of the burdens of taxation.

Very serious questions arise at the very threshold of argument in favor of any policy contemplating the issue of the paper circulation of the country directly and solely by the government.

First. Perhaps the most important point in any such proposition is to determine, by whom shall the machinery necessary for its successful management be controlled? The past experience of the country establishes the dangerous character of direct congressional control in matters relating to the currency. The vacillating and conflicting expressions and enactments by Congress touching this question demonstrates the truth of the assertion so frequently made, that many members of both its branches are lamentably ignorant of the elementary principles of practical finance, and liable to yield to the pressure of efforts and arguments of persistent and interested lobbyists, and, while in no wise appreciating the evils likely or certain to result from their action, favor the enactment of laws pernicious in their character, and productive only of confusion and damage to all legitimate enterprises and business pursuits.

As illustrating this tendency on the part of Congress, we have but to recall the act of April, 1874 (fortunately for the country, vetoed by President Grant), intended to largely increase the volume of irredeemable currency then afloat in the country, at a time when there was no profitable use for the vast amounts of it then in existence. This was done in direct violation of repeated pledges made by Congress for the early redemption of that already issued. The fallacy of the arguments pressed in behalf of this measure are unmistakably established by the fact that from lack of profitable use, a gradual retirement of paper currency has been going on, by the operation of what may be called natural laws, from that day to this, amounting, including legal-tender notes and national-bank notes, to over seventy millions of dollars, between January 1, 1875, and May 1, 1877, or an average of two and a half millions per month.

The hitherto unreliable and ever threatening course of congressional action, prompted, in many instances, by a supposed pressure of public opinion, manufactured by the speculative and selfish elements of society for the furtherance of their own schemes,—admonishes us that it would be unwise to confide to that body the details of a question of such magnitude. There has, probably, been no more potent reason assigned for a supposed necessity of the absolute abandonment of the policy of government issues of currency than the constant menace of congressional acts in reference to it that would be detrimental to the business interests of the country. Our past experience also teaches us that while we may not dare trust this particularly delicate question to Congress, a large, and in some sense irresponsible body,—irresponsible in that no member feels that on him personally rests the consequences of the acts of the body at large,—yet the officers charged with the management of our national finances in their detail have, as a rule, been conservative and generally sound in their recommendations, and have, as far as was in their power, sought to promote the credit of the government and the best interests of the people at large. Every Secretary of the Treasury since 1861 has held and proclaimed, with more or less of emphasis, rational principles on the subject of the national debt and the early restoration of a specie basis for our currency; and in fact all the executive officers of the government, as far as known, have held similar views. It is not improbable that many who, under the influences of legislative surroundings and misrepresented views of their constituents, have lent their aid in promoting vicious propositions, would, if thrown entirely on their own personal responsibility, have opposed measures that as senators and representatives they stand on the record as favoring. Cabinet officers are not, however, always, or perhaps usually, practical financiers or experts in the solution of financial problems, and it would probably be unwise to require either the Secretary of the Treasury or the Comptroller of the Currency, or the two jointly, to decide on all questions relating to the extent or manner of issuing the

currency, or the provision that should be made for its redemption. An executive Board of Control, consisting of the two officers above named, and one representative each from the east, south and west, or increased to seven, each representing a fixed section of the country, and selected with reference to his eminent knowledge of finance and his fitness for such a position, (such selections to be made by the President of the United States, or, if deemed more desirable, by an association of all the bankers of the country desiring to participate in the selection, the voice of each being in proportion to the banking capital he represents,) would constitute a body from which might reasonably be expected wise decisions and a satisfactory management of all questions relating to the currency. Such a board, to be enabled to exercise its full measure of efficiency, should be granted discretionary power, within liberal limits to be prescribed by law, in reference to the issue of paper currency and providing for its redemption. A fear that might be entertained in some quarters that bankers, mindful of their own interests, would be inclined to maintain an unnecessarily limited volume of paper in circulation, in order to enhance the rates of interest for the use of money, has no real foundation in fact. Government issues, large or small, would neither add to nor diminish their own loanable funds, but liberal issues of paper money tend to increase bank deposits, from the use of which, after all, much the larger proportion of the profits of banking are realized. A paper currency is not money in any just sense, but only its representative, and should never be put in circulation in lieu of money, except as it can be judiciously and safely floated as a medium of exchange. To that extent it is a great commercial convenience, if not an absolute necessity; beyond that, if forced into the channels of trade, it only results in the inflation of nominal values as measured by it, producing exaggerated views of prosperity, but certain, sooner or later, to end in disappointment and disaster, widespread and far-reaching, to all the industries and business enterprises of the people. Conservative and educated bankers will always deem it to their interest that there should be employed as large a volume of currency, and no more, as prudence will dictate, having in view the highest degree of real prosperity in business interests, and the ability of prompt redemption, which will surely be called for so soon as the currency fails to find profitable employment.

Second. By what means shall government issues be put in circulation? and how, after they are once redeemed, shall they be again paid out by the government? When the legal-tender notes now in the hands of the people were issued, no such question presented itself. At that time the government was an enormous purchaser of services and material for the prosecution of a great war, and these notes were forced upon its creditors as a promise to pay in the future. No such state of things now exists, and it is hoped never will. There is no occasion now for the pay-

ment by government of money in excess of its current receipts from the various forms of taxation. Banks pay out their notes as loans, and receive them back, practically, in payment of those loans; the same process being repeated again and again, the intermediate process of their use as deposits and the payment of the same and of redemptions on presentation, not in any way changing the general principle of the business. Clearly the government cannot adopt that course, except by indirection. No one probably would suggest that the government should adopt the policy of discounting commercial paper, or that it should in any manner meddle with obligations of credit not its own. As a means of again placing currency, once retired, into circulation, we have the suggestion so persistently advocated by Mr. Kelley, and others, in and out of Congress, of a convertible bond bearing interest at, say, the rate of $3\frac{5}{8}\%$ per cent per annum,—a sort of double-acting and self-adjusting contrivance which contemplates no payment in any just sense, but an eternal round of canceling one promise with another, with no provision that either should ever be fulfilled. That proposition contemplates a continuance of the policy of maintaining a currency half legal tender and half national-bank notes, but practically resulting in the introduction into the currency of a new element, to wit, the bonds issued for legal tenders as presented. The arrangement would operate as a standing invitation to the holder of every idle dollar in bank vaults, or otherwise not in active circulation, to invest it in the proposed bond, he knowing that at any moment he desired to do so, he could convert the bond into legal-tender notes, and pocket the accrued interest. The bonds would, from the very nature of the case, be regarded as more desirable than the non-interest-bearing note, and would soon come to pass from hand to hand, with accrued interest added to their face at the rate of one cent a day on the hundred dollars, truly a most desirable instrument for all large payments, and a most ingenious device for compelling the government to pay interest on an immense sum of money that it does not want and cannot use. The scheme seems to have contemplated the conversion of the whole debt of the country into a circulating medium, as it made it the duty of the Secretary of the Treasury to apply all legal-tender notes received in exchange for the convertible bonds to the purchase of the coin bonds outstanding; the currency so paid of course to be again converted into 3.65 bonds, and so continuing the process till all bonds outstanding at the passage of the act were converted into the 3.65s. The act provided but \$50,000,000, and any surplus from current revenues, not otherwise appropriated, to the redemption of the 3.65s, which would be utterly insignificant for the conversion of perhaps fifteen to eighteen hundred millions of them, as in time there would come to be afloat. Assuming that the coin obligation of the outstanding bonds was not to be ignored, or repudiated, it may well be supposed that the purchase of them for such a currency could only be effected at a premium that would

result in largely increasing, perhaps doubling, the present debt of the United States. An arrangement of that nature would certainly result in an abundant supply of currency, whatever might be its value. A proposition so preposterous needs but to be touched by the spear of truth to demonstrate the proportions of the balloon it is. It is hoped this scheme in its varied and hideous combinations has been finally laid away to its eternal rest, to be remembered only as one of the vagaries of a disordered imagination, laboring to accomplish the impossible feat of successfully flouting a debt indefinitely, with no thought or provision for ever paying either its principal or the interest upon it, except in a new paper of the same qualities as the old,—a feat quite similar to that of a man attempting to lift himself out of a mire by his boot-straps.

Is it not possible, however, to utilize some of the parts of this rejected combination into a means of exchange between the people and the government, in the process of issuing and redeeming currency for the convenience and interest of both? A Board of Control, such as has been herein suggested, could, with almost unerring accuracy, ascertain, from time to time, the financial status of the affairs of the country, and its needs as to more or less paper currency than was at the time in circulation; and in case they deemed the supply excessive, permit currency as redeemed to accumulate in the Treasury; or, if they deemed it insufficient, to supply it within the limits prescribed by law, the public being kept advised of the amount outstanding by weekly statements through the medium of the public press. The limit of currency issues should be fixed by law, not exceeding, say, six or seven hundred millions of dollars, including the issues of the government and the banks; the latter, however, to be supplanted by the government legal-tender issues as fast as they flow by natural processes into the hands of the government, or as the banks choose to retire them, and all bonds now on deposit for their security to be returned to their owners so soon as the bank notes, or any portion of them, are canceled, or provision is made by the banks for doing so by the government, as is now the case; the policy contemplating the entire extinguishment of the bank-note circulation at an early future date, not fixed. All demands for money, beyond the amount of currency afloat, to be supplied by coin itself; and as the paper issues are redeemable in coin on presentation, the whole circulating medium would be practically one of coin, as in England.

The means of procuring coin with which to redeem the government issues of currency, and of replacing currency into circulation, must, in such a proposition, be through the sale and purchase of the bonds of the government; these sales to be for actual coin, wherever they can be made to the best advantage, the purchases to be for currency, and to be made either after the receipt of proposals, duly advertised for, or in the open market, subject to competitive bids. The bonds being in no sense money

would, under such circumstances be held, the same as now, for investment; and purchases by government, before maturity, would only occur when currency was more profitable for use than they. Bonds so purchased, or similar ones, would be again sold when coin was needed to maintain the proper reserve for redemption; thus the process would, in a measure, be automatic in its operations, or easily adjusted by the Board of Control, and, in any event, devolve the cost of maintaining the currency at par with coin on the whole people through the government, where, under such circumstances, it would rightfully belong. At times it might occur that the board would be obliged to pay a trifle more for bonds in exchange for currency, than it could at other times realize in coin on their sale, but the reverse of that condition of markets, at the times when it was desired to make the respective exchanges, is quite as likely to exist, so that the chances for loss or gain in that respect are about equal.

Under such an arrangement, the whole paper circulation of the country being of government issue, and legal tender for all debts, public and private, it is scarcely conceivable that in the general business of the people a large demand for coin redemption could arise.

In case the exchanges with foreign nations should require the remittance of coin or its equivalent, the bonds would be preferred, so long as the government maintains its high order of credit; nevertheless, a sufficient reserve of coin should at all times be held in the Treasury to meet possible or probable contingencies of every nature. A reserve of half the outstanding currency could be so maintained, and yet result in a large saving of interest over the policy of issues solely by the banks under the existing law. The policy of receiving deposits of coin by the Treasury, and issuing certificates therefor, as now practiced, should be continued. This will enable the Board of Control to more directly communicate with the coin demands of the country, as it were, holding its hand on every pulsation at its money centers. These deposits, however, should not in any sense be counted or considered as a part of the currency redemption reserve.

If these views of the situation, as it relates to the future of our paper currency are correct, or substantially so, and are worthy the careful consideration of our representatives in Congress and the executive officers of the government, who are charged with the duty of submitting recommendations touching the welfare and prosperity of the country, is it not time now to agitate them, in order to secure their early consideration, and the adoption of a policy in harmony therewith? It is probable that Congress will, at the approaching session, as it certainly is its duty to do, adopt measures looking to the final settlement of all questions relating to the resumption of specie payments. Shall they be such as will obliterate the greenback from our circulating medium, or as will reinvest it with a new and much more useful existence than it has hitherto possessed? If

the former, we may safely anticipate a tightening up of financial affairs that will not only result in holding the industries of the country in their present depressed and languishing condition, but that will still further dry up the fountains of enterprise by diminishing the supply of loanable capital to the amount of actual coin in circulation or by absorbing it, in a large percentage, as the basis of national bank notes. If the policy prevails of substituting the present bank circulation by the government issues, and supplying the entire paper currency by their use, from forty to sixty millions of bank capital, now idly held by the Comptroller of the Currency, will be released to take its place in promoting the prosperity, and, by its use, increasing the wealth of the country, at the same time giving the people a currency secure beyond any contingency, except the bankruptcy of the nation, and such as they will be better satisfied to use and to hold, than any other, not excepting coin itself.

THE COIN STANDARD.

In considering the question of a resumption of specie payments, as the matter now stands, any suggestion of details would be exceedingly incomplete that did not take notice of the issue, now before the country, in reference to a single or, so called, double metallic standard, as the monetary basis of the nation. The passage of a bill by the House of Representatives at the last session, providing for the reestablishment of a full legal-tender silver coinage, of the proportions of sixteen of silver to one of gold, and the extended consideration that question is still receiving, warrants the assumption that such a measure will be again pressed on Congress as a part of the plan for specie resumption. So much of vituperation and ill-feeling has been introduced into the discussions of this subject, and so many unwarranted statements have been made as to the probable results of such a course, that it has come to have somewhat the appearance of being pressed more as an end, than as a principle which would bear a calm consideration in the light of all the facts bearing upon it. Under these circumstances, it is greatly to be feared that such a deliberate and candid investigation into the real merits of the subject will not be accorded to it, as the great importance of the question to the future welfare of the country demands. A most baseless charge has been promulgated, both in and out of Congress, and especially by some of the leading public journals, that the act of February, 1873, by which the so-called "dollar of our fathers" was dropped from the list of authorized coinages, was surreptitiously, if not fraudulently, passed through Congress in the supposed interest of those who sought to accomplish ends for their personal advantage. These statements are so entirely at variance with the facts in the case, that it seems almost incredible that an honest man, having the means of information within easy reach, could reiterate them again and again, even for the accomplishment of a purpose that he deemed

in itself worthy and entitled to his earnest support. The act in question, finally approved February 12, 1873, certainly was not passed hurriedly through Congress; in fact it appears from the records of the two houses that it received very much more than ordinary consideration and discussion. The bill was first introduced into the Senate by Mr. Sherman, who had received it with an accompanying report in reference to the supposed necessity for its adoption, from the Secretary of the Treasury (Mr. Boutwell). The report and bill, which were very elaborate, were prepared by Hon. John Jay Knox, then deputy comptroller of the currency, but at present the comptroller. The bill, as its title denotes, was intended as a revision of all the then existing laws relating to coinage; it named the several coins thereafter to be issued from the mints, and fixed the weight and fineness of each, and prescribed full regulations for the conduct and management of the mints and assay offices of the United States, and repealed all previous enactment upon the subject to which it related. It is a bill of sixty-seven sections, and exhibits more of harmony in its various details than is usual with elaborate acts of its nature. The accompanying report expressly called attention to the fact that the bill eliminated from the authorized coinage the silver dollar of 412½ grains, which was the only authorized silver coinage at that time that was by law a legal tender for sums over five dollars. The original draft of the bill as presented to Congress provided for no silver coin of over a half dollar, which with the smaller subsidiary silver coins were to be made a legal tender only for sums less than one dollar.

On April 28, 1870, the bill was introduced, ordered printed and referred to the finance committee. May 2, additional copies were ordered printed, and after being duly considered by the committee it was reported back to the Senate with a recommendation that it be passed. January 9, 1871, in accordance with previous notice, it was called up, was very fully discussed and its various features explained, and on the next day it was passed by the Senate without amendment, in so far as this feature of it was concerned. Yeas, 36; nays, 14. Three days later the bill as passed by the Senate was, on motion of the Hon. W. D. Kelly, ordered printed by the House of Representatives, and referred to the committee on coinage, of which Mr. Kelly was a member, and probably its chairman. That being the short session, the bill did not come before the House for final action before the close, though it was reported back with an amendment and again printed and recommitted.

Early in the first session of the next Congress Mr. Kelly introduced the bill into the house, and it was referred to the new committee on coinage. January 9, 1872, the bill was reported back by Mr. Kelly, who, at that time, stated it had received unusual attention from the previous committee, having been examined section by section, line by line and word by word, and that it had also been thoroughly examined by the new

committee, who recommended its passage. The next day it was again before the house, was discussed at considerable length and was recommended. February 9, it was again reported with an amendment, and again recommitted. February 13, it was again reported back with amendments and made the special order for March 12. April 9, the bill then being under consideration, the Hon. Samuel Hooper made a speech, occupying ten columns of the *Congressional Globe*, fully explaining every feature of the bill section by section. The bill had by this time been amended in various particulars; among others, a silver dollar had been provided for of 384 grains, or proportionate to the value of the subsidiary smaller silver coins.

Mr. Hooper said: "Section 16 re-enacts the provisions of the existing laws defining the silver coins and their weights respectively, except in relation to the silver dollar, which is reduced in weight from 412½ grains to 384 grains, thus making it a subsidiary coin in harmony with the silver coins of less denomination to secure its concurrent circulation with them. The silver dollar of 412½ grains, by reason of its bullion, or intrinsic, value being greater than its nominal value, long since ceased to be a coin of circulation, and is melted by manufacturers of silverware. It does not circulate now in commercial transactions with any country; and the convenience of these manufacturers in this respect can better be met by supplying small stamped bars of the same standard, avoiding the useless expense of coining the dollar for that purpose." Mr. Stoughton also explained this particular feature of the bill. Mr. Potter stated that the bill made "legal-tender coin of only one metal, and not as heretofore, of two." Mr. Kelly said: "It is impossible to retain the double standard." May 27, Mr. Hooper again called up the bill, and offered an amendment in the nature of a substitute; the changes were explained, the amendments agreed to, and the bill passed,—yeas 110, nays 13. The bill, as passed, so far as it related to the silver coinage, was identical with the one so elaborately discussed and explained by Mr. Hooper and others on April 9. The bill then went to the Senate again, was explained by Senator Sherman, ordered printed May 29; reported back December 16; was called up January 17, and again printed with amendments, and on January 17, 1873, after a very full discussion, was passed by the Senate. The Senate had changed the dollar of 384 grains to one of 420 grains, to be called a "trade dollar," not a legal tender, and intended for export in the trade with China, Japan and other countries in Asia. The bill then went to the House for concurrence in the Senate amendments, and, not being promptly agreed to, it was referred to a committee of conference, who recommended a concurrence by the House, and the report being adopted by the House, the bill became a law by executive approval, February 12, 1873. It was, as previously remarked, a very elaborate bill, revising the entire laws relating to coinage, and, during its long progress

to enactment, was modified and amended in many respects. But at no time was any proposition submitted looking to the continuance of the coinage of the $41\frac{3}{4}$ grain dollar, and no feature of the bill was more fully discussed and explained than that relating to it. Slight changes were made in the weight of the half-dollar and smaller coins, and two widely different dollars were proposed, intended for widely different purposes, neither of which was to be a legal tender for over five dollars. The bill was read at length several times, and was printed in its various modified forms—in all thirteen times. The history of the passage of this bill is thus given with some degree of minuteness, even at the hazard of its appearing tedious, in order to show how utterly unfounded are the charges that have been made that it was passed without due consideration, and under misapprehension or lack of knowledge on the part of members and the country as to that provision of it which discontinued the coinage of the old dollar. This argument has apparently been brought out at this late date for the purpose of inciting a popular feeling, that interested parties succeeded in securing, surreptitiously, the passage of an act, the effect of which was to defraud the country and the people of a right they had to pay their debts at option in either silver or gold, and so to produce a reaction that would restore the advantages supposed to have been thus lost.

It is not, however, in any just sense true that the silver dollar was first demonetized by the act of 1873. The act June 28, 1834, which reduced the standard of the gold coinage over six per cent, as practically demonetized the silver dollar as if it had been obliterated from the coinage of the country; and it is stated that from 1834 to 1873 no silver dollars were received at any of the custom-houses of the country, where they would be likely to appear if any were used as money. In fact, from 1805 to 1839, when they began to be coined for export, only one thousand dollars of them were coined at the mints. It is not true that the silver dollar of United States coinage ever formed an appreciable element of the money of the country. The entire coinage to 1805 was but \$1,439,577, and in 1836, \$1,000 more. Up to 1861, when all coin ceased to be used in the exchanges of the people, the entire coinage of silver dollars amounted to but \$4,218,570, and up to 1873, when it ceased to be coined, the entire issue was only \$8,045,838 against \$816,905,788 of gold coinage during the same time, and it is safe to say that not more than \$1,500,000 of United States silver dollars were ever used by the people as money at their face value, the use of them as money after 1834 being so manifestly at a loss in business transactions. The coinage of this dollar after 1834 was used either for export at its bullion value, or in the mechanic arts; the only object in coining it at all was to secure the stamp of the government as to its fineness and weight, which would be accepted both at home and, generally, abroad without question. To supply the demand

for China and Japan the trade dollar was instituted in 1873, its weight, which was stamped upon its face, being more desirable, as it better conformed to the silver coinages in use in those countries.

The act of 1834 did not change the weight or fineness of the silver dollar, but it reduced the gold dollar by fixing it at only one-sixteenth the weight of the silver, instead of one-fifteenth as before. The proportions of weight between the two metals in the coinage of France has remained at fifteen and a half to one from 1785 to the present time, and that proportion has been the rule for many years in nearly all European countries, where both metals have been used as full legal tender. In Holland the proportion of silver to gold was a trifle more; in Austria and Russia a trifle less than fifteen and a half to one. The United States rule, prior to 1834, of fifteen to one, drove all the gold out and left us the silver; the proportion, after 1834, of sixteen to one, drove out all the silver and left us the gold. The commercial logic of these changes being, if a given weight of gold was worth at the United States Mint only fifteen times as much as the same weight of silver, while in Europe it was worth fifteen and a half times as much, our higher rating of the silver kept it all here; whereas when the proportions were changed and we rated gold at sixteen times the value of silver, and Europe still maintained her previous rating, we were allowed to keep the gold and the silver went there.

This condition of affairs continued to exist, our silver steadily leaving us as it came from the mint, or in the form of bullion, to an extent that left the country practically bare of even the small coinages necessary for daily use in all business transactions, until 1853, when Congress sought to remedy the difficulty by adopting a debased small silver coinage for domestic use as change. That the act of 1853 was intended by Congress to reduce the legal-tender coinage to one of a single metal does not admit of any reasonable doubt, in view of the then existing facts relating to the silver dollar coinage, and of the debates in Congress on its passage. Mr. Dunham, in the House of Representatives, on reporting the bill from the committee to which it had been referred, said, with reference to the double standard: "The constant changes in the relative values of gold and silver has always resulted in great inconvenience, and frequently in great loss to the people. Wherever the experiment of a single metal standard has been tried it has proved eminently successful. Indeed it is utterly impossible that you should long at a time maintain a double standard. The one or the other will appreciate in value when compared with the other; it will then command a premium when exchanged for the other, when it ceases to be currency and becomes merchandise. The committee desire to obviate the double standard of gold and silver; they desire to have the standard currency to consist of gold only, and these silver coins shall be entirely subservient to the gold." Several other gentlemen in debating the bill expressed similar views, but

the above may suffice as indicating the intention of the friends of the measure, brought directly to the notice of the house. Just why the silver dollar was not stricken from the authorized coinages can only be accounted for by the fact that it could not be coined and used as money in this country without so large a loss as to render it practically obsolete. It will be remembered that the object of the act of 1853 was to provide a supply of small silver coin that would circulate among the people in small payments and as change. The act of 1834 having firmly established gold as the only practical legal tender of the country, it was probably deemed unnecessary to go beyond the special object sought in order to eliminate silver from the standard coinage of the country. Subsequently came on the war, and in its train the entire abandonment of the use of coin as a basis of ordinary payments among the people, but in so far as coin has since been used, the gold dollar has been the only basis of calculation.

We are told, with great persistency, that the silver dollar of 412½ grains (more properly described as containing 371½ grains of pure silver, with at first 44½, and later 41½ grains of alloy) was the only unit of value recognized by the laws of the United States from the foundation of the government to 1873. This seems to be intended as an argument to sustain the hypothesis of good faith in efforts for its reestablishment, and to strengthen the assertion that a great wrong was perpetrated upon the country by its abolishment. The claim set up that the silver dollar was ever the only unit of values in this country is denied. The Constitution of the United States gives Congress power to coin money and to regulate the value thereof. The coinage act of 1792 declares that the money of account of the United States shall be expressed in dollars or units, dimes, cents and mills, each being established upon a relative proportion to the other. That act provides for the coinage, in gold, of eagles, each to be of the value of ten dollars; half eagles and quarter eagles, each of their relative proportion to the eagle, that is to say, of the value of five and two and a half dollars respectively. It also provides for the coinage of dollars or units in silver, and of fractions of a dollar, each bearing its true proportion to the dollar. Webster defines the word unit as "One: a word which denotes a single thing or person: the least whole number." The unit of value, then, both by the sense of the declaration of Congress, and by the above definition, is clearly the dollar, not the silver dollar, the gold dollar, or a paper dollar. In practice, as well as in law, all monetary expressions in this country are by dollars and its fractions. In France the franc is the unit of values; its composition may be changed and its value increased or diminished, as compared with other things, but its use as a basis of expression and calculation would remain unchanged. So with the United States the dollar is the legal unit of expression for monetary values, whatever may be its commercial value. As represented in the gold eagle of 1792, the dollar contained 24½ grains of pure gold; in

that of 1834, it contained 23.25 grains of pure gold; no reference was made in the act of 1834 to a unit, and the silver dollar remained unchanged. Was it bad faith to pay our debts in the new gold dollar, which was worth less, by nearly five per cent, than the silver dollar as the relative value of the two metals then stood? Certainly it was if the silver dollar was at that time the only legal unit of values. By the act of March 3, 1849, two new pieces of gold coin were authorized, "double eagles, each to be of the value of twenty dollars or units," and gold "dollars, each to be of the value of one dollar or unit." By the act of February 21, 1853, still another gold coin was added, "of the value of three dollars or units." Both of these acts provided that the new coinage authorized shall be "conformable in all respects to the standard of gold coins now established by law." Here we have a unit of gold long before 1873. Which was the real and only standard, if either?

We have thus traced the material features of the coinage acts of the country down to 1870; at that time the question of a resumption of specie payments had come to be seriously considered. In anticipation of this event the officers specially charged with the administration of our monetary affairs deemed it wise that the coinage laws should be revised and amended in many important particulars, and recommendations covering the whole question in detail were submitted to Congress by the Secretary of the Treasury. The fact was as apparent then as it had been for many years, that the coinage of the 412½ grain silver dollar, it being at that time about 4½ per cent more valuable than the gold dollar, was of no practical use as money. The coinage of this piece had for many years been little else than merely a certificate by stamp as to the fineness and weight of the metal, the product of our mints in this form being either exported as merchandise or transferred to the manufactory of silverware, ornaments, etc. Our experience had been but the repetition of that of England prior to 1816, when that government adopted a single standard, as the result of the higher valuation of silver on the continent than in England. McCulloch says: "From 1717 to 1816 no silver coins of legal weight and purity would remain in circulation, but were either melted down or exported." The recommendations, as we have seen, hung along in Congress until 1873, and, as finally adopted, seem to be wise and politic, as the condition of the relative values of gold and silver then stood,—at all events it was accepted as such by the country. In the light of subsequent events it might have been better to have established a double standard of gold and silver on the basis so long current in Europe, of 15½ of silver to one of gold. Whether such a course would have tended to avert the disturbance in the value of silver that has since occurred can only be a subject of conjecture,—it certainly admits of doubt.

Neither silver nor gold can remain at a fixed value unless the mints of commercial nations stand ready to absorb all offerings and give it the

legal stamp of money. With the large increase in the production of gold in 1850 and later years its bullion price did not decline—though other commodities may have advanced—because the mints were open to convert it into the money by which all values were measured. Had they been willing to absorb but a portion of it, the remainder must have found a market as merchandise at what it would command for other uses, which would have brought the whole stock to the same level, as governments would have pursued the same course as the United States is doing at the present time in the purchase of silver for subsidiary coinage, that is, buying it as merchandise wherever it can be procured the cheapest. The price of silver has been maintained from 1785 to 1876 at nearly the same point, from the fact that France during all that time, and other nations during a large portion of it, have been ready to absorb all offerings at the proportion of $15\frac{1}{2}$ of silver to 1 of gold. France was peculiarly well situated to act as a sort of safety-valve for the regulation of the values of the two metals; on the one side was England with a single gold standard, on the other Germany with a single silver standard, with other neighboring nations in harmony with herself,—her laws permitted coinage of either metal to an indefinite amount on her established proportions of valuation, and she, more than any other, or perhaps all other nations, has assisted in controlling this question.

In 1871, Germany, after her contest with France, decided to adopt a gold coinage as legal tender, her sole standard of values previously having been silver, and by a law of July 9, 1873, gold was made the sole standard, and silver is hereafter to be used, as in England, only as a subsidiary coinage. This has changed the whole situation in respect to the value of silver. The large amount of silver coin held in Germany that has been discarded is being replaced with gold, and instead of her being a consumer she has, for the time being, practically become a producer of silver,—she wants no more, and has a large portion of her stock for sale. France, and the other nations that cooperated with her in respect to coinage, hesitated as to whether or not they could afford to take all the silver Germany had to sell, in addition to the increasing productions of other portions of the world that depended on Europe for a market, and pay for it at the rate of $15\frac{1}{2}$ to 1, or even at any approximate rate. At first their silver coinage was restricted, and subsequently it was ordered to entirely cease; the result was that silver in Europe immediately became merchandise only. With a pressure to sell and few buyers, the price rapidly declined, touching, in July last, in the London market, 46½ pence per ounce, at which a United States silver dollar of 412½ grains would be worth in gold less than 80 cents. Since then the price has fluctuated; at the present time being about 54½@54½ pence, making the old silver dollar worth about 92 cents in gold. What the future of silver may be is a problem the best thinkers in both Europe and America find

no certain basis for calculating. That the long-established relations of value between it and gold have been so seriously disturbed is a source of the deepest regret; that those relations can be and ought to be restored, by the united action of leading commercial nations, can admit of little doubt. That one nation can successfully control the situation is beyond question an impossibility. The experience of England prior to 1816, and of the United States in later years, both at the respective times among the most prominent of commercial nations, establishes beyond controversy how little one nation can do toward fixing a proportionate value on these two metals. The experience of France is not at all parallel, for the reason that she was in a position to act as a sort of clearing-house between nations on either side,—in the one case using silver as a standard only, and in the other gold only. The great consumers of silver in Europe have ceased to be such. Germany, Denmark and others, which used silver only, have changed to gold; while France, Belgium, Switzerland and others, which used both, have ceased to coin silver, though they have not yet discarded that in circulation; that they may do so at no remote day is among the possibilities; that any which have abandoned silver as the sole standard will return to it, as such, is highly improbable. As the case stands to-day, the only demand for silver, as money, worth considering in the light of markets, is from Asiatic countries, particularly China, Japan and British India, and the United States to a moderate amount, not beyond her own production, for subsidiary coinage. It is apparent from the past history of the demand, and the growing tendency to adopt gold as money in Asia, that no market can be found there for any increase in shipments to an extent that will absorb the surplus production, much less the demonetized silver now in circulation in Europe, estimated at from one thousand to twelve hundred millions of dollars, not counting a sufficient supply for subsidiary coinage. Probably no one would estimate the aggregate amount of silver that could be used in the United States as money, on a full legal tender, at over five to seven hundred millions of dollars. In case more of the European metal is thrown upon the market than the United States mints can absorb, and assuming that the Asiatic trade can take all the productions of the various countries producing silver bullion for sale—certainly a violent assumption—what price might we expect to see the then existing surplus command in the public market? During the summer of 1876, with the United States mints coining silver to their utmost capacity, and the government in the market as a purchaser to supply them, silver declined in the London market in consequence of the stoppage of the continental mints and the sale by Germany of an insignificant amount, about 13 per cent, and was checked only by the withdrawal of German sales and the continued United States demand.

It is not supposed that it is held by the advocates of a re-establish-

ment of the silver legal tender that gold shall be discarded, and the money of the country confined entirely to silver; but rather that both alike shall be a legal tender. We have seen that the old silver dollar, which never exceeded 6 per cent premium over gold in the valuations of Europe, would not circulate as money in this country, even when the premium was not over $1\frac{1}{2}$ to 2 per cent; and probably a difference of less than 1 per cent between the values of one kind of money and another will in many ways cause the cheaper to supplant the dearer in all business transactions among the people. What reason, then, can we have to suppose that a dollar of gold would remain in this country longer than was necessary to transfer it from the mine to the ship, if we discriminate against it by a legal enactment rating it, as compared with silver, so much against it, as the basis of 1 to 16 would do, when it may be worth in other markets in the proportion of 1 to about 17 as now, or 1 to over 19 as last summer, or perhaps even a great deal more? The fluctuating character of our paper currency, as compared with coin, since 1862 has, as it is admitted on all hands, been a most grievous burden upon the government, as such, and upon all classes of the people. Its influence has been most pernicious and demoralizing upon many, and more or less injurious to all. Every dollar's worth of imported goods was affected in price to the consumer by the unstable value of that in which he paid; and if it be true, as is held by many, that on all our products, a part of which are exported, the price of that portion exported fixes the price of the whole product, then in the case of nearly all the products of our soil and mines their price was controlled by the coin value for export, the domestic exchanges being effected in a currency the purchasing power of which was fluctuating up and down with actual or anticipated changes in the gold premium, which, from necessity, was watched with the closest attention day by day and hour by hour. It became necessary for every merchant in his sales, and every purchaser of our products, to make an allowance for contingencies in the changes in gold between the payment and receipt of his money, and being in the more advantageous position, he was usually enabled to do that, to the injury of both the American consumer and producer. The intermediate money-changers were in a position to reap rich harvests, not unfrequently manipulating the basis of those exchanges to accomplish their own purposes. What was true, as between gold and greenbacks, would be true to as great an extent, probably much greater, as between gold and silver; in the one case the speculation was upon the credit of the government, in the other it would be upon an article of merchandise the supply of which was in excess of the demand for it, which would render the latter much the more profitable field to cultivate.

It being impossible that either gold or silver can be maintained at a fixed price unless the mints are open to convert all that is offered into

money; and as the relative values of the two metals can only be maintained among nations by a concurrence of valuations among a sufficient number of them to control the whole supply; then if one nation desires to maintain a double standard of gold and silver, giving neither a preference over the other, it seems clear, if it be a commercial nation, that it can only do so, except at a fearful loss to itself, by the concurrent action of others in adopting an international policy of uniform valuations of the respective metals, and a common use of them as domestic and international money. It would be of comparatively little importance, except to those who produce the metals from the mines, what the relative values might be fixed at, if there were not already large amounts of coinage of both in the hands of the people, of a recognized value. At present the United States has no silver coin of a legal-tender value, while other nations have large amounts of it received by them at a valuation in the proportion of about $15\frac{1}{2}$ of silver to 1 of gold; hence the adoption of an international valuation of $15\frac{1}{2}$ to 1 would undoubtedly result in less of inconvenience and disturbance, than would an agreement or any other basis.

The unsettled feeling that at present exists in Europe touching the future of their monetary systems seems to make it an appropriate time to endeavor to secure such a unity of action as will promise to set this question at rest, if not for all time, certainly for many years. Great Britain, although she has long since adopted the single gold standard, still has,—on account of her vast East India possessions, which have the single silver standard,—as great an interest in rescuing silver from overthrow, as money in Europe and America, as any other nation. It is well known that many of her ablest statesmen, financiers and merchants are much inclined to the reestablishment of silver as money throughout her dominions. France and the other nations of the Latin union are desirous of maintaining their long-time usage of a double standard. In the United States the sentiment in favor of that policy, if adopted on principles that will keep us in harmony with the nations with whom we deal commercially, is probably overwhelming. These nations, if united, are quite sufficient to control the question, even if Germany persists in her present policy. It is, however, not improbable that she would readily yield a concurrence in a bi-metallic standard, were such agreed upon by the other nations named. It is possible that without Great Britain or Germany the United States and those European nations that have not yet demonetized silver might, by concerted action, sustain the movement with entire success; but they can only do so by the utmost harmony and good faith. That efforts on our part to secure such a prompt unity of action as will ultimate in a definite international policy in regard to the use of silver is imperatively demanded by the issues that are upon us, scarcely admits of argument, and seems too plain for hesitation. In the meantime, pending

such an adjustment, the only safe policy on our part seems to be to wait. In case we take further steps in the direction of ignoring the use of silver as money in its fullest sense, we may accelerate its substantial overthrow, which, to us, would be a great calamity, as we are to-day the leading silver-producing country of the world. If, on the other hand, we should decide, unaided and single handed, to stem the current and seek to control this question, we open our doors, inviting all holders of silver to pour it in upon us in exchange for our gold, or our other productions, at a valuation vastly more than, under such circumstances, we could ever hope to realize for it.

We cannot, if we should try, make any other people, using gold only, accept in lieu of money our silver in exchange for their goods at a greater valuation than they can realize for it as merchandise. No policy would so effectually inclose us, as within walls, as the attempt to transact our business on a money wholly ignored by the nations with whom we have been accustomed to deal. The fluctuations of our foreign exchanges would literally know no bounds. The aggregate of our exchanges with foreign nations resulting from our imports and exports in 1876 was over \$1,000,000,—practically both sides of this account must be adjusted by the exchange of money, as little if any of it is the operation of barter; the importations are paid for by exchange, and the exports are collected for by the same process. Was there ever presented a field so inviting to the manipulator of exchange as this? Admitting that in reality our imports might, to some extent, be paid for by our gold production, and our exports by the silver accumulating in the hands of our debtors,—still all must pass through the hands of the money changer at such relative valuations of the two metals as he is able to fix upon them. Our indebtedness held abroad but payable at home, it is contended, should be paid, together with the interest upon it, in either gold or silver, which means that it should be paid in silver. Can any estimate be placed upon the effect on our public credit by such a policy, in case we alone insist on using silver as standard money?

The exchanges between Europe and Asiatic countries, using silver as money, especially between England and her Indian possessions, aggregate enormous amounts. The silver side of those exchanges has for many years been treated as merchandise, the gold as money; that is to say, in selling a bill of exchange it is computed at so much per ounce for the silver bought or sold, to be paid for in gold. It is probable that for a time, if the United States adopted the silver standard alone, these exchanges would be made here, as they are being done now to some extent. This would, incidentally, be somewhat to our advantage; but so soon as England became satisfied that we were benefited to any considerable extent at her expense by such a process, she would find means for forcing upon her dependencies the adoption of a gold standard, thus still further cir-

cumscribing the field of silver use. Japan, with over thirty millions of people, has already adopted a gold standard, and all accounts agree that the use of gold in other commercial countries of Asia is rapidly being popularized.

Whatever may be our desire to maintain the value of our silver production, or whatever may be our convictions as to the propriety of retaining silver as a prominent constituency of money, common prudence dictates that we should hesitate to undertake the absorption of the surplus silver of those nations which are discarding it as their monetary standard, at a fixed price to be paid in gold or its equivalents. We cannot absorb the supply of silver if we would, and if a part may possibly be left, to be sold at greatly below our ideal valuation, we assist but little in maintaining for it any approximation to the cost imposed on our people for its purchase, and at the same time secure to ourselves a medium of exchange whose ability to measure the value of other commodities arises solely from its stamp. Almost as well might that stamp be impressed on brass or iron if by it alone we are able to recognize it as of a specified value.

In the apparent madness of the hour, pressed, perhaps, by men who would find a way to legally evade full payment of their just debts, some of the States are discussing the question of establishing, as full legal tender, within their respective limits, the debased token coinage issued by the national government as a means of making payments of fractions of the dollar. At the present writing, the Legislature of Illinois has passed a bill with this intent, which only awaits the signature of the Governor to become a law. The bill provides that all the standard silver coins of the United States shall be legal tender for all debts, public and private, within the State; the avowed object being to include, as such legal tender, the subsidiary fractional coinage worth about seven per cent less than the $41\frac{2}{3}$ -grain dollar, and at the present time worth about eighty-five cents in gold. Whether the courts will hold that such a coin is in any sense a standard coin remains to be seen. How long the people of Illinois can, if it be sustained, endure a monetary basis so far below that of the other States, even if the old dollar were restored as a national legal tender, can best be determined by a prophetic knowledge as to whether or not our whole monetary system is to be given over to chaos.

The argument advanced in some quarters, that there is not sufficient subsidiary coin in circulation to embarrass the channels of trade, and that as it can only be put in circulation by the deposit of legal-tender notes, therefore it cannot sink below the value of legal-tender notes, exhibits a great ignorance of facts, or a desperate determination to pervert them. Already, with only a part of the issue first authorized—which was considered absolutely necessary for displacing the paper fractional currency—put in circulation, the banks in the leading cities are so

loaded with it that they will gladly sell it at one quarter of one per cent or more discount, and in New York it is daily quoted at three-quarters per cent discount for any bankable funds. If this be the case with only about thirty millions of dollars in circulation—less than the fractional currency before it began to be retired, which never was at a discount unless defaced—to what discount may we not expect it to sink should there be placed in circulation eighty millions of it, as has been recommended, and will probably be done? Thus far, owing to the novelty of its use by the people, it has been hoarded to a considerable extent, and has worked its way slowly into the interior. The government will now send it anywhere free of expressage, and while it will be a drug in the cities, it will yet continue to flow out from the mints until all parts of the country are flooded with it, when it will cease to be hoarded, and every holder will be glad to get rid of it, as in former times, on a vastly less amount per capita afloat. If one State alone will use it as a full legal tender, it will gradually but surely flow to her embrace, and if the people of Illinois will accept it for their rich and varied productions, they may expect to see their exchanges with other States range from five to seven, and in case the rest of the nation does not adopt a silver standard, perhaps twenty or more, per cent premium.

The emergency demands intelligent and prompt action. We are on familiar and pacific terms with all nations. A movement for concert of action by us would, perhaps, be more acceptably received than from almost any other quarter. Let us, looking to our own interests, seek to inaugurate a reform in the tendency so apparent to dethrone this queen of the world's long-time medium of exchange, and endeavor, as best we may, to reestablish silver coin on a firmer and more enduring basis, as relates to its fellow metal, than it has ever yet enjoyed. But, pending the final solution of the problem, it would seem our true policy to await the issue with patience and hope, not committing ourselves to so ruinous a policy as would be the attempt, singly and alone, to turn back the tide, which, failing to accomplish, might overwhelm us in financial complications and disaster of the gravest character. The magnitude of the question and of the interests involved should command, on the part of our government, the aid of the best financial and diplomatic assistance procurable. Its determination should not be left to the influence of popular demonstrations or expressions, originating either in misinformation, blind prejudice, or the advancement of personal interests.

The writer makes no apology for presenting in this form, and anonymously, the thoughts herein expressed. The great importance of a proper solution of all the questions alluded to seems to him to justify the fullest discussion. If any of the suggestions appear to the reader as of value, either wholly or in part, and they can be utilized for the benefit of the country, the time and labor spent in preparing them, to be thus cast

upon the waters, will be amply compensated for. If they shall be found to possess no merit, nor in any way contribute to reflections on our monetary affairs that will lead to good practical results, then the undersigned will deeply regret that his readers have wasted their time in a profitless perusal of this unexpectedly extended presentation of his views. His apology, in this respect, must rest on the real or fancied prerogative of the enjoyment of free speech and a free press by every

AMERICAN CITIZEN.

CHICAGO, May 1877.

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